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# Loan Interests

## Safe Drinking Water Loan Program SFY 2004 Funding Policies

*Dan Olson*

### Available Funding

Wisconsin expects to receive a federal capitalization grant for approximately \$15,850,700 from the United States Environmental Protection Agency (U.S. EPA) for State Fiscal Year 2004 (SFY 2004 starts July 1, 2003 and ends June 30, 2004). After adding 20% for the state match, \$19,719,121 in unused funds from SFYs 2002 and 2003, and subtracting funds for set-asides, the available funding for Safe Drinking Water Loan Program (SDWLP) loans to local governmental units for SFY 2004 is expected to be **\$35,884,130**.

### 20% State Match

Wisconsin must provide a state match of at least 20% of the federal capitalization grant, or \$3,170,140.

### Funds for Set-Asides

The federal Drinking Water State Revolving Fund (DWSRF) allows states to set aside up to 31% of the federal capitalization grant to fund DWSRF administrative expenses, state program management, small systems technical assistance, and local assistance and other state programs. For SFY 2004, DNR plans to use \$2,855,831 on the following activities:

- \$634,028 for DWSRF administrative expenses (4%)

- \$1,585,070 for state program management of the Public Water System Supervision program (10%)
- \$317,014 for small systems technical assistance (2%)
- \$319,719 for other state programs for establishment and implementation of wellhead protection program (2%)

### Funding List

DNR will place on the SFY 2004 SDWLP funding list all eligible projects for which local governmental units submitted complete SDWLP applications by April 30, 2003. DNR will rank the projects in descending order by priority score.

### Fundable Range

The fundable range is the range of projects on the funding list that can be fully or partially financed with the available funding, in accordance with s. NR 166.26, Wis. Adm. Code. The Department of Administration (DOA) will allocate the appropriate amount of present value subsidy to each project in the fundable range.

### Unused Funds - From SFYs 02 and 03

The Available Funding includes \$19,719,121 of unused funds from SFYs 2002 and 2003. This funding may be allocated to projects in descending order on the Funding List after the present value of the subsidy for the SDWLP is approved for the State 2003-2005 Biennium.

### Unused Funds - SFY 2004

If a project in the SFY 2004 fundable range does not use all of the funding it is allocated, or fails to execute a loan on or before April 30, 2004, or if the funding

it is allocated is reduced in accordance with ss. NR 166.26(3)(b) to (h), Wis. Adm. Code, DNR and DOA will reallocate the unused funding to the next highest ranked, eligible project(s) on the funding list, in accordance with s. NR 166.26, Wis. Adm. Code. If the next highest ranked eligible project(s) is unable to execute a loan on or before April 30, 2005, DNR and DOA will add any unused funds to the SFY 2006 available funding. If there are no other eligible projects to which the SDWLP can allocate any available or unused SFY 2004 funding as of April 30, 2004, DNR and DOA will add any unused or unallocated funds to the SFY 2005 available funding.

### **25% Present Value Subsidy Limitation**

Under s. 281.61(8)(a)2, Wis. Stats., no one local governmental unit may receive more than 25% of the present value subsidy available in SFYs 2004 and 2005.

### **Small Systems**

Small systems are those public drinking water systems that serve less than 10,000 persons. The number of persons served by a system is obtained from the DNR Bureau of Drinking Water and Groundwater and determined on the application deadline, April 30, 2003. DNR uses this figure to determine whether or not a system meets the small systems population criterion. In accordance with s. 281.61(8)(a)1, Wis. Stats., DOA will allocate to small systems 15% of available funds, or a lesser amount that fully funds the small system projects on the list. If a project is designated as a small system and is needed to meet the 15% small systems requirement, the SDWLP will provide the local governmental unit full loan assistance, subject to the 25% present value subsidy limitation and available funding.

### **33% of Market Interest Rate Loans**

A local governmental unit with a population less than 10,000 and an

adjusted median household income (MHI) of 80% or less of the state's adjusted MHI, is eligible to receive an interest rate that is 33% of the current market interest rate for loans, in accordance with s. NR 166.14(1), Wis. Adm. Code. Local governmental units that do not meet both criteria will receive an interest rate that is 55% of the current market interest rate for loans. The interest rate for a loan is determined with population and MHI data available at the time of the Financial Assistance Agreement.

### **Refinancing, Reimbursement and the U.S. EPA Eight Quarters Rule**

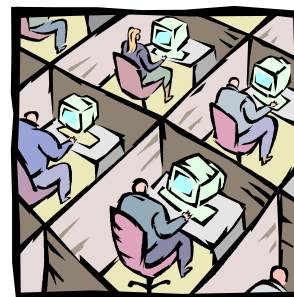
To avoid SDWLP funding shortfalls and multiple loan closings for single projects, Wisconsin transferred Clean Water Fund Program (CWFP) funds into the SDWLP to help fund construction costs subject to U.S. EPA's Eight Quarters rule. CWFP funds are not subject to the Eight Quarters rule, and will primarily be used to fund refinancing and reimbursement costs for projects that could not otherwise be funded with a single loan due to the Eight Quarters rule. To date, Wisconsin has transferred \$23,596,056 from the CWFP to the SDWLP. In SFY 2004, \$10,000,000 of the transferred funds are included in the available funding.

So – what is the Eight Quarters Rule? Construction costs incurred prior to the execution of an SDWLP loan may be eligible for refinancing or reimbursement with an SDWLP loan. However, U.S. EPA has an “Eight Quarters” rule that restricts a portion of the available funding, affecting the way in which funds to refinance or reimburse construction costs incurred prior to execution of a loan can be disbursed. Design and planning costs are not subject to the Eight Quarters rule. In SFY 2004, as much as \$20,713,990 of the available funding could be restricted”.

“Eight Quarters” refers to the time period during which funds can be restricted -- up to eight calendar quarters. The start of the Eight Quarters period, the first quarter, is the calendar quarter in which U.S. EPA notifies DNR that Wisconsin will receive its federal capitalization grant. Wisconsin uses or “draws” funds from the capitalization grant as the primary source of funding for SDWLP loans.

U.S. EPA requires that any refinanced or reimbursed construction costs funded with the restricted funds need to be drawn evenly over the calendar quarter in which the loan is executed and the remaining calendar quarters of the Eight Quarters period. In other words, if restricted funding is used, the refinancing or reimbursement costs cannot be paid with one SDWLP loan; a loan would need to be executed in each of the remaining calendar quarters of the Eight Quarters period. For example, if an SDWLP loan is executed in quarter 4 of the Eight Quarters period, only one-fifth of the funds needed for refinancing or reimbursement can be used in the quarter 4 loan; Wisconsin must draw the restricted funds and disburse them with loans evenly over quarters 4,5,6,7 and 8.

For more information, please contact Dan Olson at (608) 267-9638 or [dan.olson@dnr.state.wi.us](mailto:dan.olson@dnr.state.wi.us) φ



## Draft SDWLP SFY 2004 Funding List

*Dan Olson*

Attached to this newsletter is a **Draft** Safe Drinking Water Loan Program (SDWLP) State Fiscal Year 2004 (SFY 2004) Funding List (see Attachment B of the IUP). This **is not** the final funding list; we expect to finalize the funding list this October 2003.

The purpose of the Draft SDWLP SFY 2004 Funding List is to give applicants a preliminary indication of their chances of receiving SDWLP SFY 2004 funding. Eligible applicants who submitted applications on or before the April 30, 2003 deadline are included on the list, and are sorted in descending order by priority score. In the case of tie scores, the project serving the higher population is considered the higher priority. For SFY 2004, all projects are expected to be completely or at least partially funded, since there are more funds available than were requested.

If you have any questions, please contact Dan Olson at (608) 267-9638, or [dan.olson@dnr.state.wi.us](mailto:dan.olson@dnr.state.wi.us) ☐



## Safe Drinking Water Loan Program Intended Use Plan for SFY 2004

*Becky Scott*

Section 1452(b) of the Safe Drinking Water Act requires that each state prepare an annual Intended Use Plan (IUP). The IUP identifies the uses of the funds in the Drinking Water State Revolving Fund and describes how those funds support the goals of the Act.

The Safe Drinking Water Loan Program IUP for State Fiscal Year (SFY) 2004 is attached to this newsletter. The IUP is part of Wisconsin's capitalization grant application package for Federal Fiscal Year 2003 funds. After EPA awards Wisconsin's capitalization grant, we will use the grant and state matching funds to provide financial assistance for drinking water projects and fund several programmatic set-asides during SFY 2004.

If you have any questions or comments regarding this IUP, please contact Becky Scott at (608) 267-7584 or [rebecca.scott@dnr.state.wi.us](mailto:rebecca.scott@dnr.state.wi.us) ☐

## Public Hearing Scheduled

*Dan Olson*

The Department will hold a public hearing on Wednesday, June 25, 2003, to receive comments regarding funding policies and project priority lists for State Fiscal Year 2004. This public hearing is for both the Clean Water Fund Program (CWFP) and the Safe Drinking Water Loan Program (SDWLP).

## Calendar of Events

**June 25, 2003**

**1:00 pm, Rm. 817 GEF 2**

**Madison**

***Funding Policies Public Hearing***

**June 30, 2003**

**deadline**

***CWFP hardship applications***

The funding policies and the project priority list for the CWFP were published in the April 2003 issue of Loan Interests. The SDWLP policies and priority list are included in this issue of Loan Interests.

If you wish to submit oral comments to the Department regarding these items, we encourage you to attend the public hearing. You may also submit written comments prior to or at the hearing.

See the Notice of Public Hearing attached to this newsletter for further information. ☐